Mr Lynch

BAD BOY

Appliances and Furniture Limited

ANNUAL REPORT

for fiscal year ended April 6, 1974

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Corporate Offices
2770 Dufferin Street
Toronto, Ontario M6B 4C1

Transfer Agent and Registrar
The Royal Trust Company

Listed
Toronto Stock Exchange

Solicitors
Miller, Thomson, Sedgewick, Lewis & Healy
Friedman and Eisen

Auditors
Laventhol Krekstein Horwath & Horwath
Chartered Accountants

Bankers
Toronto-Dominion Bank

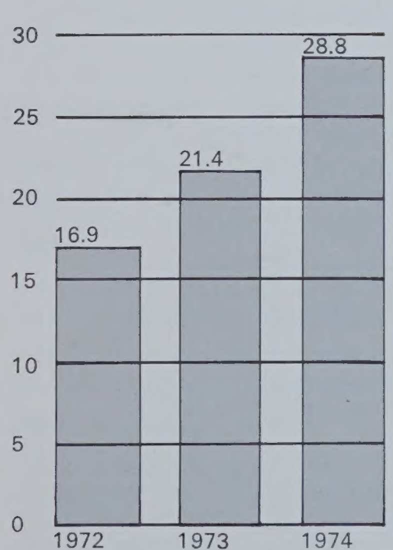
Annual Meeting
Royal York Hotel
Toronto, Ontario
September 19, 1974
11.00 a.m.

Financial Highlights

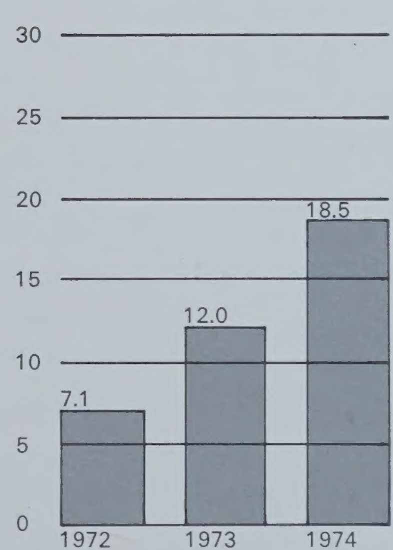
	April 6, 1974	March 31, 1973	Net Percentage Change
Sales	$47,370,444	$33,432,959	+41.7
Earnings before income taxes	3,762,484	2,390,696	+57.4
Net earnings	1,843,897	1,214,981	+51.8
Net earnings per share	$ 0.92	$ 0.61*	+51.8
Number of shares outstanding	2,000,000	2,000,000*	—
Working capital ratio	1.4:1	1.6:1	
Total assets	$14,055,582	$ 9,029,808	+55.7
Shareholders' equity per share	$ 2.87	$ 2.02*	+42.0
Approximate number of employees	425	330	
Number of stores at year end	29	26	

*Giving retroactive effect to a 2:1 stock split in August 1973

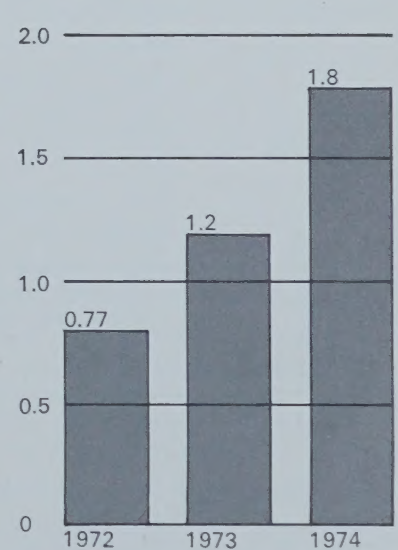
Appliance Sales
in millions of dollars



Furniture Sales
in millions of dollars



Earnings
in millions of dollars



Officers and Directors: (Seated left to right) Allen C. Lastman, Executive Vice-President and Secretary-Treasurer; Melvin D. Lastman, President; Marilyn Lastman, Assistant-Secretary; Myrle W. Book; Jack Friedman, Q.C.; (Standing left to right) Michael Curry; Samuel A. Stenzler, Vice-President, Advertising; Ronald K. Lansing, Vice-President, Corporate Development; Ben S. Mandell, Vice-President, Sales.

Bad Boy Appliances and Furniture Limited

Officers

Melvin D. Lastman
President
Willowdale, Ontario

Allen C. Lastman
Executive Vice-President and Secretary-Treasurer
Thornhill, Ontario

Ronald K. Lansing
Vice-President, Corporate Development
Islington, Ontario

Ben S. Mandell
Vice-President, Sales
Downsview, Ontario

Samuel A. Stenzler
Vice-President, Advertising
Downsview, Ontario

Marilyn Lastman
Assistant-Secretary
Willowdale, Ontario

Directors

Myrle W. Book
President, M. Book Management Limited
Weston, Ontario

Michael Curry
President, Cochran Murray Limited
Toronto, Ontario

Jack Friedman, Q.C.
Partner, Friedman and Eisen
Toronto, Ontario

Ronald K. Lansing
Vice-President, Corporate Development
Islington, Ontario

Allen C. Lastman
Executive Vice-President and Secretary-Treasurer
Thornhill, Ontario

Marilyn Lastman
Assistant-Secretary
Willowdale, Ontario

Melvin D. Lastman
President
Willowdale, Ontario

Report to Shareholders

The year ended April 6, 1974 was one of further progress for your company with sales and earnings setting record highs. The outlook for the current year is also favourable.

Sales

Sales for the year ended April 6, 1974 from the 28 Bad Boy stores across Ontario and the Flaw Market in Toronto rose 42% to $47,370,000 from $33,433,000 a year ago.

In 1970, your company decided to expand its furniture selling facilities and increase its product lines. Since then we have enjoyed substantial sales increases in this highly competitive field.

Furniture sales for the year ended April 6, 1974 rose 54% to $18,550,000 from $12,045,000.

Appliance sales which account for 61% of our total volume increased 35% to $28,820,000 from $21,388,000. In this area, Bad Boy remains a dominant force, helping to bring the lowest prices to the consumer.

This growth reflects public confidence in our sales and service policies.

Earnings

Net earnings climbed 52% for the year ended April 6, 1974 to $1,844,000 from $1,215,000 the previous year. Earnings per share from operations rose to 92 cents from 61 cents after giving retroactive effect to a 2:1 stock split in August, 1973.

Dividends

A tax-paid dividend of 6 cents per share was paid during the past year and this dividend rate is being maintained with payable dates changing from January 1 to January 31 and from July 1 to July 31.

Financial Position

Total assets rose more than $5,000,000 during the year. The major changes were an increase in merchandise inventories of $2,300,000, a rise of $860,000 in land holdings, an additional $1,020,000 in trade and real estate receivables, and $300,000 in leasehold improvements.

The increased inventory was due to our effort to build up stock to offset shortages which are plaguing both the furniture and appliance industries. The stockpiling ensures that your company will continue to carry on its 'Instant Delivery' policy to customers.

All land holdings will be developed by the end of 1975 pending issuance of building permits.

The rise in trade receivables was due to the major increase in your company's sales.

Ontario Expansion

Your company moved into its new 200,000 square-foot warehouse in Etobicoke last October. It became fully operational by December 31, 1973 and has greatly improved our distribution.

To be prepared for anticipated sales increases, we have scheduled the building of an additional 50,000 square feet onto the new warehouse for next Spring.

Three new stores were opened during the past year and four existing stores were expanded and refurbished. This expansion programme has generated significant sales increases.

In April and July 1974, we replaced our smaller North Bay and Oakville outlets with 30,000 square-foot 'new look' Bad Boy stores.

For the current year, plans are being finalized for several more Ontario stores. Among these will be one at Lawrence and Markham Road in the northeast section of Metropolitan Toronto; one for Hamilton Mountain, which will be Hamilton's second Bad Boy store; and Windsor's first Bad Boy store is under construction.

A much larger store will be opened in a new location in Timmins in November, replacing our older, smaller outlet and a similar expansion will take place on Danforth Avenue, in east Toronto.

Quebec Expansion

For the first time in our history, Bad Boy is moving outside of Ontario. We recently announced that we will open four of our largest outlets in the Montreal area by the end of 1975, backed up by a 100,000 square-foot centrally located warehouse. The first three Montreal stores will be opened in the Spring of 1975. They will be from 38,000 to 45,000 square feet. The average size of the new Ontario Bad Boy stores range from 20,000 to 30,000 square feet.

We are pleased to announce our new senior staff in Quebec. Two executives who have a great deal of furniture and appliance experience in the Quebec market have joined our company.

Gilles Fiset will be responsible for Bad Boy's merchandising division in the province and Gaston Maltais will take charge of the sales division. The two newcomers will report directly to Hank Lang who will become the General Merchandise Manager in Quebec. Henry Cooper will also move to Montreal from Toronto as Operations Manager.

The Bad Boy Concept

In the highly competitive field of furniture and appliance retailing, Bad Boy offers more to the consumer. Bad Boy always leads—never follows!

People—The success of any company depends on people—and people only! Bad Boy is a completely centralized operation with all key management personnel working out of head office. This keeps our costs relatively fixed as we expand.

There are 8 senior people on the management team who have an average age of 41. They have considerable experience in all phases of the Bad

Boy operation. Although each one is a specialist in his own department, he is quite capable of performing in other areas.

We train and motivate our sales staff. The result has been that Bad Boy salesmen earn more than the industry average. Our salesmen earned an average of $14,800 last year. Store managers earned an average of $24,400.

Instant Delivery—We were the first to introduce to Canadians the 'Instant Delivery' concept. We guarantee delivery within 48 hours of purchase. Most retailers take up to 16 weeks to deliver. Our sophisticated merchandising and inventory systems—unlike any other in Canada—back up this policy.

Price Guarantee—We led again by introducing a 90-day price guarantee. It states: "If a customer were to find a lower price anywhere within 90 days, Bad Boy will refund the customer the difference plus 10% of the difference."

We have had very few rebates—because our prices are the lowest. Our discount image on which we thrive is real.

Merchandising—We sell only name brand, fully guaranteed goods. Bad Boy is one of the few retailers which has been successful in merchandising both furniture and appliances.

Most retailers carry one or the other—usually limiting the selection of one area. Bad Boy is a one-stop shopping chain for home furnishings.

Not all our stores are identical. Our selection of merchandise and sales staff caters to the ethnic, social and income levels of specific districts.

We saturate municipalities with stores—bringing Bad Boy stores to the people. We don't expect them to travel great distances.

Store Display—Our larger stores of today are highlighted by complete room settings, fully accessorized. The customer can visualize what the suite will look like in her home.

Service—Bad Boy has grown because satisfied customers tell their friends about us. Our centralized service department serves all Ontario efficiently. We are convinced that success—and even survival—of a company in the 70's and 80's will depend on how well that company serves the consumer.

Advertising—Advertising is one of Bad Boy's biggest assets. The following are your company's advertising and public relation policies:

1) *Honesty:*
Bad Boy respects the intelligence of the buying public. We give them the facts—we hide nothing.

2) *Market Saturation:*
We get our message to as many people as often as possible. Last year we spent more than $2,000,000 in newspaper, radio, television and direct mail advertising.

3) *Unique identification:*
Bad Boy's ads look like no one else's. Our commercials sound like no one else's. We project excitement! We expect all our advertising to achieve immediate results.

Our advertising does not stop at the media level. We follow through with promotional signs and other material in our stores.

Real Estate

We have a division that specializes in researching store sites and acquiring land for building. We then construct our own building to meet our specifications. The property is then sold on a leaseback arrangement. Our long-term leases generally range from 20 to 25 years with fixed rentals. This method reduces our rents far below market averages.

Sales Training

We have developed our own consumer-oriented sales training program to teach our salesmen the Bad Boy technique. This audio-visual program on both sales and product knowledge runs five days a week throughout the year.

Outlook

In a recent study, the Canadian Appliance Manufacturers Association reports that growth in appliance sales would more than double within 10 years. However, the survey notes that a modest 8% increase is expected for 1974. The association also expects shortages to continue in appliances. We are continuing to increase inventories significantly to ensure delivery to our customers at the lowest prices possible.

Our long-standing relationship with our major suppliers assures us of receiving sufficient merchandise over this difficult period. There is one major exception, however, and that is the severe shortage of freezers due to a lack of compressors.

Bad Boy's discount reputation helps us do better than our competitors in times of rising prices. So, Bad Boy faces the future with optimism, well-planned merchandising policies and highly motivated people.

Your Board of Directors is most appreciative of the continued support given by our staff, our customers, and our suppliers.

On behalf of the Board,

MELVIN LASTMAN
President

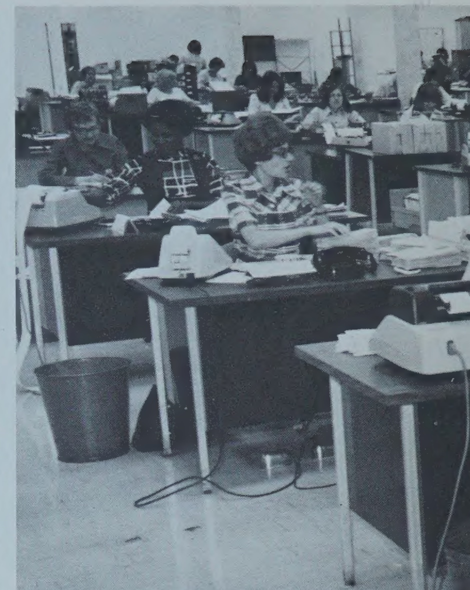
ALLEN LASTMAN
Executive Vice-President

June 30, 1974

Top : Advertising Vice-President Sam Stenzler (left) discusses newspaper ad design with Melba Tilley and Advertising Manager George Diercks.

Centre : Corporate development team works on new store. Left to right : Max Schank ; Harry Ennis ; Harvey Speaker ; Keith Lansing, Vice-President, Corporate Development ; Ted Young.

Buyers Jack Rubenstein (left), Morris Albom and Orlando Forlini (right) discuss merchandising with Ben Mandell, Merchandise Manager and Vice-President, Sales.

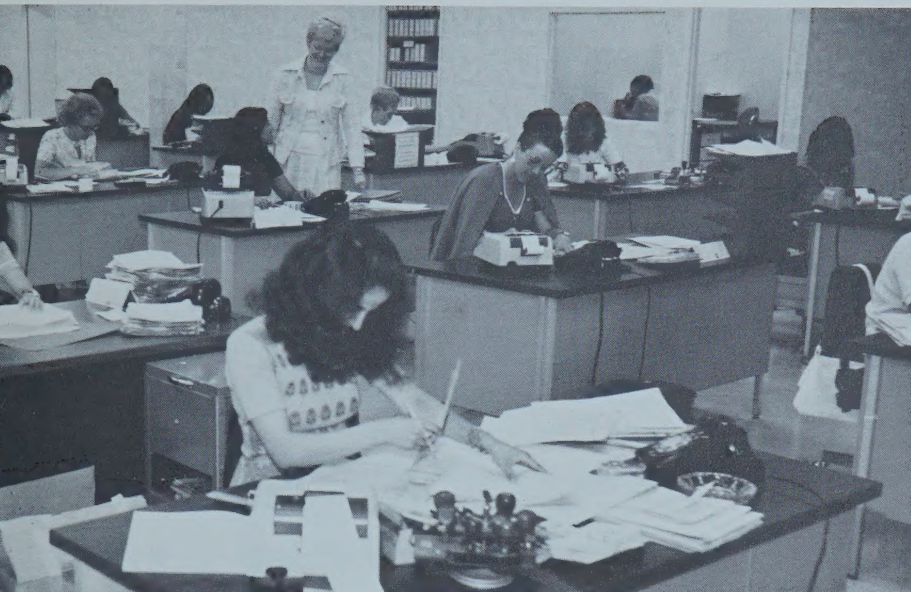


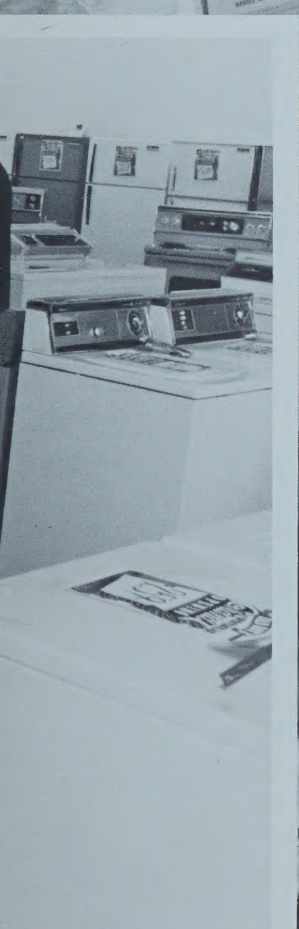
Top left : Office Services Manager Lucy Sguigna (left) and Pat Sheehan answer a store query.

Top centre : New general office area.

Bottom left : Leo Agranove (left) and Service Manager Saul Speisman solve a customer's problem.

Bottom centre : Appliance section in new Oakville store.





Top right: New 200,000 square-foot Etobicoke warehouse.

Bottom right: Sales Managers John Dortona (left) and Harold Grieve, Jr. discuss province-wide strategy with Sales Supervisors Ron Ross and John O'Neil.

Consolidated Balance Sheet

	April 6, 1974	March 31, 1973
Assets		
Current:		
Accounts receivable:		
Trade	$ 1,114,897	$ 656,853
Sale of real estate	565,091	—
Inventories, at lower of cost and net realizable value	9,478,000	7,151,600
Prepaid expenses and sundry assets	408,170	190,531
	11,566,158	7,998,984
Real estate (Note 2)	1,014,889	152,068
Investment, at cost	30,000	10,000
Fixed assets (Note 3)	1,196,778	868,756
Deferred charges (Note 2)	247,757	—
	$14,055,582	$ 9,029,808

See accompanying notes.

On behalf of the Board:

MELVIN LASTMAN, Director

ALLEN LASTMAN, Director

	April 6, 1974	March 31, 1973
Liabilities		
Current:		
Bank indebtedness (Note 4)	$ 2,579,242	$ 693,586
Customers' deposits	564,861	405,379
Accounts payable and accrued liabilities	4,302,161	3,295,737
Income taxes payable	704,169	603,854
Mortgages payable, current portion (Note 2)	80,000	1,000
	8,230,433	4,999,556
Deferred income taxes payable	92,000	—
Shareholders' Equity		
Capital stock (Note 5):		
Authorized:		
3,000,000 Common shares, no par value		
Issued:		
2,000,000 Common shares	4,190	4,190
Retained earnings	5,728,959	4,026,062
	5,733,149	4,030,252
	$14,055,582	$ 9,029,808

See accompanying notes.

Auditors' Report

To the Shareholders of
Bad Boy Appliances and Furniture Limited.

We have examined the consolidated balance sheet of Bad Boy Appliances and Furniture Limited and its subsidiary as at April 6, 1974 and the consolidated statements of earnings and retained earnings and source and application of funds for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 6, 1974 and the results of their operations and the source and application of their funds for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Toronto, Ontario,
June 20, 1974.

Laventhol Krekstein Horwath & Horwath
Chartered Accountants.

Consolidated Statement of Earnings and Retained Earnings

	For the fiscal years ended	
	April 6, 1974 (53 weeks)	March 31, 1973 (52 weeks)
Retail sales	**$47,370,444**	$33,432,959
Income from operations before the following charges	**$ 3,893,596**	$ 2,487,615
Depreciation and amortization	**131,112**	96,919
Earnings before income taxes	**3,762,484**	2,390,696
Income taxes	**1,918,587**	1,175,715
Net earnings	**1,843,897**	1,214,981
Retained earnings, beginning of year	**4,026,062**	2,870,081
	5,869,959	4,085,062
Tax paid to create tax-paid undistributed surplus	**21,000**	9,000
Dividend paid out of tax-paid undistributed surplus	**120,000**	50,000
	141,000	59,000
Retained earnings, end of year	**$ 5,728,959**	$ 4,026,062
Earnings per share (Note 6)	**$ .92**	$ .61

See accompanying notes.

Consolidated Statement of Source and Application of Funds

	For the fiscal years ended April 6, 1974 (53 weeks)	March 31, 1973 (52 weeks)
Source of funds:		
Operations:		
Net earnings	$ 1,843,897	$ 1,214,981
Add items not requiring a current outlay of funds:		
Depreciation and amortization	131,112	96,919
Miscellaneous	3,936	(2,097)
Deferred income taxes payable	92,000	—
	2,070,945	1,309,803
Sales of real estate	2,075,000	1,200,000
	4,145,945	2,509,803
Application of funds:		
Cost of real estate inventory	1,314,821	175,068
Less mortgages thereon, long-term portion	475,000	—
	839,821	175,068
Cost of real estate purchased and sold during the year	2,333,594	1,199,058
Purchase of fixed assets, net	452,233	347,911
Reduction of long-term debt	23,000	—
Investment	20,000	—
Tax paid to create tax-paid undistributed surplus	21,000	9,000
Dividend paid out of tax-paid undistributed surplus	120,000	50,000
	3,809,648	1,781,037
Increase in working capital	336,297	728,766
Working capital at beginning of year	2,999,428	2,270,662
Working capital at end of year	$ 3,335,725	$ 2,999,428

Certain 1973 figures have been reclassified to conform with the current year's presentation.

See accompanying notes.

Notes to Consolidated Financial Statements
April 6, 1974

1. Principles of consolidation:
These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary.

2. Real estate:

Land, at cost	$1,489,889
Mortgages payable, net of $80,000 current portion	475,000
	$1,014,889

It is the company's operating policy to select land sites for development of shopping plazas. Upon completion of construction, the company intends to sell the sites and lease back facilities for "Bad Boy" locations.

It is the company's accounting policy to amortize profits or losses on sale and leaseback transactions over the term of the lease commitments. The real estate held in 1973 together with its related long-term portion of the mortgage debt has been reclassified to conform with the current presentation.

During the year the company had sales of real estate on a leaseback arrangement amounting to $2,075,000 resulting in a net loss of $258,594 (1973 profit – $942). The 1974 amortization amounts to $9,911. The unamortized portion of $247,757 is reflected as a deferred charge on the balance sheet.

As at June 20, 1974 the company closed on offers to purchase land amounting to $732,000. $338,000 cash was paid and mortgages maturing within two years were assumed for the balance at rates varying from 8% to 9%. As well, offers to purchase land approximating $705,000 have been accepted. These offers are subject to certain conditions. If all the conditions are satisfied $410,000 will be due on closing ($40,000 of deposits tendered with offers) and an 8% mortgage maturing in 1976 will be assumed for the balance.

3. Fixed assets, at cost:

	Rate	April 6, 1974	March 31, 1973
Furniture and fixtures	20%	$ 197,330	$ 162,091
Automotive equipment	30%	58,234	55,821
Leasehold improvements	—	1,252,251	948,677
Signs	35%	46,261	30,924
		1,554,076	1,197,513
Accumulated depreciation		357,298	328,757
		$1,196,778	$ 868,756

Leasehold improvements are amortized on a straight-line basis over the estimated useful lives of the assets. Other fixed assets are depreciated on the diminishing balance method at the rates indicated above.

4. Bank indebtedness:
Bank indebtedness includes bank loans of $2,155,089 against which accounts receivable are pledged as security. As additional security, there are floating charge demand debentures of $5,000,000 on all of the assets of the company.

5. Capital stock:
During the year the company obtained articles of amendment subdividing the 100,000 unissued shares and 1,000,000 issued shares of the company into 200,000 unissued shares and 2,000,000 issued shares respectively and the authorized capital of the company was increased by creating an additional 800,000 shares.

6. Stock options:
During the year the company reserved 100,000 shares for the granting of options to directors and key employees and granted options in respect of 68,000 of such shares at the price of $7.75 per share (being the market value of the shares at the date of the granting of the options) None of the options granted has been exercised. All such options expire at various dates up to March 31, 1978.

If all the options were exercised at the date they were granted, there would have been no dilution to earnings per share.

7. Contingent liability:
A writ and statement of claim has been issued against the company claiming approximately $650,000 as a result of a fire in a shopping plaza in which a "Bad Boy" store occupied space. $500,000 of the alleged loss is covered by insurance. The total claim is being defended.

8. Long-term leases:
At April 6, 1974 the company had leases expiring on various dates up to 2004. Minimum rental payments for the 1975 fiscal year (exclusive of other occupancy charges and rent payable based on a percentage of gross sales) will amount to approximately $1,300,000.

9. Remuneration of directors and senior officers:
The aggregate direct remuneration paid or payable to directors and senior officers for the fiscal year ended April 6, 1974 amounted to $344,800 ($316,200 for the fiscal year ended March 31, 1973).

Store Locations

Metropolitan Toronto Area

37 Arrow Road,
Weston, Ontario

38 Dundas Street West,
Mississauga, Ontario

745 Danforth Avenue,
Toronto, Ontario

3026 Danforth Avenue,
Toronto, Ontario

2780 Dufferin Street,
Toronto, Ontario

3030 Dundas Street West,
Toronto, Ontario

5230 Dundas Street West,
Islington, Ontario

2665 Eglinton Avenue East,
Scarborough, Ontario

1165 Kennedy Road,
Scarborough, Ontario

2814 Lakeshore Blvd. West,
Toronto, Ontario

45 Overlea Blvd.,
Thorncliffe Plaza,
East York, Ontario

2737 Weston Road,
Weston, Ontario

1400 Bathurst Street,
Toronto, Ontario

4783 Yonge Street,
Willowdale, Ontario

822 Dufferin Street,
Toronto, Ontario

Flaw Market,
2882 Lakeshore Blvd. West,
Toronto, Ontario

Other Ontario Centres

31 Clothier Street,
Kemptville, Ontario

450 Notre Dame Blvd.,
Sudbury, Ontario

539 Pavillion Road,
Timmins, Ontario

1620 Merivale Road,
Ottawa, Ontario

Hwy. 26 & 27,
1 Mile north of Hwy. 400,
P.O. Box 850,
Barrie, Ontario

10165 Yonge Street,
Richmond Hill, Ontario

18 Kennedy Road North,
Brampton, Ontario

2371 Barton Street East,
Hamilton, Ontario

Willow West Plaza,
Silvercreek Parkway,
Guelph, Ontario

540 Gardiners Road,
Kingston, Ontario

356 King Street,
Kitchener, Ontario

34 Marshall Ave. East,
North Bay, Ontario

180 South Service Road East,
Oakville, Ontario